

VERIFICATION REPORT UPDATE

**AGRICULTURAL POLICY REFORM PROGRAM
Tranche II**

Submitted by
The Government of Egypt
to
**The United States Agency for International Development,
Cairo**

With the Technical Assistance of the MVE Unit of APRP
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This update to the Verification Report of July 1998 has two purposes:

- to strengthen the analysis of certain benchmarks to better support their given level of accomplishment, and
- to update the level of accomplishment of certain benchmarks based on new information.

In the text that follows, only those benchmarks appear for which the level of accomplishment has changed or for which a stronger justification of the previous level of accomplishment is provided.

From the attached summary of accomplishment, it can be seen that since June 30, the number of benchmarks accomplished has increased from 12 to 16 since June 30, while the number of benchmarks partially accomplished has dropped from 10 to 7, and those with no progress has decreased from 1 to 0.

SUMMARY OF ACCOMPLISHMENT

Benchmark	Level of Accomplishment			
	Exceeded Full	Accomplished	Partial	No Progress
A. Prices/Markets and Trade: A1. Indicative export prices for cotton will be announced weekly based on demand and supply for Egyptian cotton in the international market as an intermediate step towards utilization of cotton futures markets. GOE will ensure that private sector traders are able to export cotton lint without quantity restrictions beginning with the 1997/98 marketing season.		X		
A2. GOE will ensure that private traders are able to buy cotton from farmers at freely negotiated prices and that traders are able to participate in the cotton trade.			X	
A3. GOE will issue instructions to fertilizer factories to sell fertilizers without quotas for any group, under commercial conditions, and will develop an overall fertilizer policy framework emphasizing fertilizer production, pricing, trade and private sector participation.		X		
A4. GOE will establish a schedule for tariff reduction on paddy and milled rice with a minimum reduction from the current level of 20% to 15% by June 30, 1998. The Government will impose no quantity or quality restrictions on such imports, subject to normal public health inspection and certification.			X	
A5. GOE will implement a schedule to allow imports of cotton yarn, cloth and ready-made garments at tariff rates in accordance with the WTO regulations and without quantitative restrictions.		X		
A6. GOE will establish measures to allow imports by registered seed importers of commercial varieties of seeds for annual vegetable and fruits that are tested and certified free of pests and diseases not found in Egypt. Importers will be allowed to sell seed of any variety which has undergone one year of testing at research establishments certified by the MALR.		X*		
A7. GOE will reduce the registration fee for imported registered seed from US \$5,000 to US\$3,000.	X			

SUMMARY OF ACCOMPLISHMENT, continued

Benchmark	Level of Accomplishment			
	Exceeded Full	Accomplished	Partial	No Progress
A8. GOE will initiate a market information system for major agricultural inputs and outputs (cotton, rice, wheat, sugar crops, maize, and selected fertilizers as well as for selected horticultural crops). The system will provide accurate, timely data and analysis at least weekly on domestic and international market prices and conditions. Publications will be in Arabic. Internet postings will be in Arabic and English.		X		
A9. GOE will codify, publish and disseminate current phytosanitary regulations with respect to cotton lint imports.			X	
B. Private Investment and Privatization:				
B1. GOE will carry out the necessary arrangements to enable the textile companies to dispose of their obsolete, stagnant or excess inventory.		X		
B2. GOE, in collaboration with the Textile HC/ACs, the Central Bank of Egypt, the Ministry of Finance and other pertinent institutions, will agree on and publish a debt resolution program for the ACs of the three Textile Holding companies.		X		
B3. GOE will privatize at least three ACs of the Textile Holding Companies, or a majority of the units thereof.		X		
B4. GOE and the Rice and Wheat Milling Holding Company will privatize at least two public sector rice-milling companies or a majority of the individual units (rice mills) thereof.			X	
B5. The seed sub-sector privatization committee, already established by MALR, will prepare a privatization plan for the Minister's approval. This plan will include allowing at least 4 CASP seed processing units to operate on a competitive basis (i.e., as a private sector business) by the end of Tranche II.		X*		
C. Agricultural Land and Water Resource Utilization and Investments:				
C1. GOE will establish public and transparent procedures for allocating and giving title to reclaimed lands.			X	

SUMMARY OF ACCOMPLISHMENT, continued

Benchmark	Level of Accomplishment			
	Exceeded Full	Accomplished	Partial	No Progress
C2. GOE will test production of <u>Hirsutum</u> cotton varieties in New Lands areas where <u>Barbadense</u> cotton is not grown.		X		
C3. The People's Assembly will enact the draft Seed Law of 1997.			X	
C4. The GOE (MPWWR and MALR jointly) will establish a strategy for the optimal use of water for rice production.	X			
C5. The GOE (MPWWR and MALR jointly) will establish a strategy for the optimal use of water for sugarcane production.	X			
C6. The GOE will develop a policy to allow the formation of water user associations in areas that have not participated in the Irrigation Improvement Program, and begin to promote such associations.	X			
C7. The GOE will develop a national strategy for improving water-use efficiency and agricultural productivity through irrigation improvement projects. This strategy will include priorities for implementing the desired improvements.	X			
C8. The GOE will develop and approve new policies, regulations, and criteria to promote drainage water re-use with appropriate incentives and technical support.	X			
C9. The GOE will establish a pest management strategy that defines clearly the roles of government agencies, private sector service providers (including Cooperatives), and farmers in pest control. This strategy will include provisions to ensure environmental protection and government regulation, inspection and oversight of pest control operations carried out by private sector companies. Farmers will have a choice of service providers in a competitive market.		X*		
D. Agricultural Sector Support Services: D1. The MALR will issue a Ministerial Decree to establish a Policy Analysis Unit as a new technical department.		X		

SUMMARY OF ACCOMPLISHMENT, continued

Benchmark	Level of Accomplishment			
	Exceeded Full	Accomplished	Partial	No Progress
D2. The PBDAC will be restructured and developed in conformity with the economic reform program of the GOE and to meet the terms of the new banking laws. The PBDAC is to be a financial institution and to phase out non-banking activities and commercial activities.		X		
D3. The People's Assembly will amend the agricultural cooperatives law to make the cooperatives effective institutions, including provisions such as: 1. Optional membership at the discretion of potential members; 2. Cooperatives can form companies and start businesses under company laws; 3. Cooperatives may pay dividends to their members from profits on business or other activities; 4. Cooperatives can make all decisions concerning their structure and activities, including financial restructuring and dissolving the cooperative.			X	
D4. The MALR will develop and approve a policy that defines the role of public-sector research and extension institutions in support of the private free-market agricultural economy of Egypt.		X*		
D5. The MALR will give the newly-formed private Egyptian Union for Seed Producers and Traders an elected seat and a vote in the National Seed Council.		X		
E. Food Security and Poverty Alleviation: E1. The GOE will determine politically and socially acceptable options for targeting food subsidies to the poor and test these options in selected representative sites.		X		
Totals per Verification Report July, 1997	6	12	10	1
Updated Totals	6	16	7	0

*Updated accomplishment.

A. PRICES, MARKETS AND TRADE

Policy Benchmark A1. Indicative export prices for cotton will be announced weekly based on demand and supply for Egyptian cotton in the international market as an intermediate step towards utilization of cotton futures markets. GOE will ensure that private sector traders are able to export cotton lint without quantity restrictions beginning with the 1997/98 marketing season.

Verification Indicator A1.1 Confirmation by survey of representative number of private traders that they were not subject to minimum export prices or quantity restrictions on exports.

Accomplishment per Verification Report: **Benchmark accomplished**

Updated Accomplishment: **Benchmark accomplished**

Analysis:

This update is designed to strengthen the case for benchmark accomplishment. In 1997/98, private cotton traders were not subject to quantity restrictions on exports. Relative to 1996/97, four of the five private traders who exported lint cotton seem to have had less difficulty acquiring lint for export from public sector companies that bought the seed cotton and had it ginned. One private trading company acquired large amounts of seed cotton for its affiliated ginning company and for export.

Minimum export prices, although nominally enforced by ALCOTEXA in 1997/98, were relaxed somewhat as private traders were able to export at prices a few cents below the ALCOTEXA stated prices. Two public sector companies were also able to export lint cotton directly from gins at prices below the ALCOTEXA prices. Hence, ALCOTEXA prices are no longer a hard barrier (minimum) but semi-permeable. Further flexibility by firms in their pricing decisions and negotiations with importers is expected this year.

Policy Benchmark A3. GOE will issue instructions to fertilizer factories to sell fertilizers without quotas for any group, under commercial conditions, and will develop an overall fertilizer policy framework emphasizing fertilizer production, pricing, trade and private sector participation.

Verification Indicator A3.1. The GOE will provide instructions to public fertilizer factories to sell fertilizer to anyone on competitive terms.

Verification Indicator A3. 2. Evidence that such instructions are being implemented and that no unnecessary GOE roadblocks are set to negate the intent of this benchmark.

Verification Indicator A3.3. Presentation of a plan for overall fertilizer policy. This plan will include a clear statement of a strategic vision as to how the fertilizer subsector will continue to evolve towards a liberalized, market-driven system. This statement will address privatization issues.

Accomplishment per Verification Report: **Benchmark accomplished**

Updated Accomplishment: **Benchmark accomplished**

Analysis:

The plan for the overall fertilizer policy has been completed with RDI assistance. The final version of this plan is now available (see attachment), which strengthens the previous MVE rating.

Policy Benchmark A6. GOE will establish measures to allow imports by registered seed importers of commercial varieties of seeds for annual vegetable and fruits that are tested and certified free of pests and diseases not found in Egypt. Importers will be allowed to sell seed of any variety which has undergone one year of testing at research establishments certified by the MALR.

Verification Indicator A6.1 GOE issues a decree stating that importers will be allowed to sell seed of any variety which has undergone one year of testing (one season of testing for vegetable crops only) at research establishments certified by the MALR.

Verification Indicator A6.2. Awareness among actual and/or potential importers of the decree.

Accomplishment per Verification Report: **No Progress**

Updated Accomplishment: **Benchmark accomplished**

Analysis:

The decree calls for three seasons of testing of seeds of vegetable crops. Testing during three seasons can be completed in one calendar year. Most vegetables in Egypt can be grown during all four of the following seasons: *nili*, winter, summer, and off-season. Dr. Saad Nassar, Director of ARC, has interpreted testing for three seasons to mean one year for vegetable crops in a letter dated 23 August 1998 (see attachment).

Policy Benchmark A9. GOE will codify, publish and disseminate current phytosanitary regulations with respect to cotton lint imports.

Verification Indicator A9.1. The GOE will codify and publish current phytosanitary regulations, which should be stated in a clear and comprehensive manner.

Verification Indicator A9.2. There will be evidence that key importers and prospective importers have received copies of published regulations.

Verification Indicator A9.3. There will be a newspaper announcement stating that these regulations are available (for free or a nominal charge) at a specified office of the GOE. (Note: this will ensure that prospective entrants into cotton lint importing are informed of the existence of such regulations).

Accomplishment per Verification Report: **Benchmark partially accomplished**

Updated Accomplishment: **Benchmark partially accomplished**

Analysis:

The GOE plans to issue a newspaper or other announcement very soon giving the codified and current phytosanitary regulations. This announcement may appear in *Misr el khadra*. Key importers have already been informed of the regulations. If the newspaper announcement appears, the benchmark will be accomplished.

B. PRIVATE INVESTMENT AND PRIVATIZATION

Policy Benchmark B3. GOE will privatize at least three ACs of the Textile Holding Companies, or a majority of the units thereof.

Verification Indicator B3.1. The completion of privatization transactions through one or more of the forms of privatization, which include the transfer of ownership and/or management of public assets, totally or in part, to the private sector. These forms of privatization include the sale of a majority of shares or assets, management or lease contracts, joint venture agreements, liquidation, or other arrangements characterized by private ownership or management. Shutting down a plant or company is not considered privatization. These transactions will privatize at least three ACs in their entirety or a majority of the units of *each* AC.

Accomplishment per Verification Report: **Benchmark accomplished**

Updated Accomplishment: **Benchmark accomplished**

Analysis:

In the *Verification Report* submitted in early July, MVE examined progress in privatization by comparing the number of privatized units to the number of total units owned by the public textile company undergoing privatization (per the verification indicator). In this update, we present the privatization information in terms of productive capacity privatized. This shows more accurately how much of a public company's effective (or real) capacity has been privatized. Using the number of units gives a misleading impression of capacity, as quite a few units are either out of operation or operating (and capable of operating) at a very low level (few spindles or looms in operation).

The updated table showing progress in privatization is shown below.

Holding Company	Affiliated Company	Units Sold or Leased	Percent of Output Privatized	Meets Benchmark
TMT HC	Alexandria S&W	All	100%	XXX
SWRMC HC	Dakhaleya S&W	One to Taiwanese-Egyptian JV	Less than 50%	X
CIT HC	ESCO	One to Korean Co (Dong Il)	60%	XX
CIT HC	Middle Egypt S&W	One (<i>under negotiation</i>)	0%	
CIT HC	Cairo Silk	All	100%	XXX

Key: In the Meets Benchmark column, X signifies partial accomplishment, XX signifies accomplishment, and XXX signifies exceeds accomplishment of privatization of productive capacity. These ratings are given relative to the goal of privatizing a majority (51%) of the capacity.

Significant progress in privatization has taken place with regards to four major affiliated companies. Two companies have either been completely sold or leased, another company has leased the majority of its productive capacity, and significant components of a fourth company have been leased.

In another noteworthy development, the Ministerial Economic Group announced on 15 July 1998 that it was starting to privatize Ameriya Spinning and Weaving Company. A ready-made garment factory will be offered for sale, as will be the company's transportation fleet (see *Al Ahram* newspaper article).

Policy Benchmark B4. GOE and the Rice and Wheat Milling Holding Company will privatize at least two public sector rice-milling companies or a majority of the individual units (rice mills) thereof.

Verification Indicator B4.1. The completion of privatization transactions through one or more of the forms of privatization, which include the transfer of ownership and/or management of public assets, totally or in part, to the private sector. These forms of privatization include the sale of a majority of shares or assets, management or lease contracts, joint venture agreements, liquidation, or other arrangements characterized by private ownership or management. Shutting down a plant or company is not considered privatization. These transactions will privatize at least two public sector rice-milling companies in their entirety or a majority of the units of *each* company.

Accomplishment per Verification Report: **Benchmark partially accomplished**

Updated Accomplishment: **Benchmark partially accomplished**

Analysis:

This update is provided to make the case for partial but near complete accomplishment. In June 1998, the Holding Company instructed the rice milling companies to value company assets in preparation for privatization and to prepare financial statements including cash flow analyses for the Ministry of Public Enterprise. Sharkeya Rice Mills Co. was privatized on June 30, 1998 by sale to the Employee Stockholders Association of 90% of the company shares. Dakahlia Rice Mills Company is expected to be sold to its ESA in August/September 1998, and Beheira Company is slated for sale after that. The MPE and HC-RFM have also worked hard to encourage potential private anchor investors to make bids on other mills. The rice mills carry heavy loads of debt, which make their sale to private investors difficult. GOE efforts to privatize rice milling companies have been intensive and commendable.

Policy Benchmark B5. The seed sub-sector privatization committee, already established by MALR, will prepare a privatization plan for the Minister's approval. This plan will include allowing at least 4 CASP seed processing units to operate on a competitive basis (i.e., as a private sector business) by the end of Tranche II.

Verification Indicator B5.1. The establishment and operation of a seed privatization committee, which will prepare a privatization plan (for the Minister's approval) to commercialize 4 CASP seed processing units. The plan will interpret "competitive" in the following sense:

- a) The 4 units will set up independent accounts and operate as independent business units.
- b) The 4 units will not receive any GOE budgetary support or subsidies within a specified time period.

Accomplishment per Verification Report: **Benchmark partially accomplished**

Updated Accomplishment: **Benchmark accomplished**

Analysis:

MVE now has a copy of the Proposal of the Seed Sector Privatization Committee for Procedures of Privatization of the Central Administration of Seed Production (CASP) in MALR. The major privatization provisions are as follows:

- There are currently no direct subsidies and the volume of indirect subsidies (salaries and depreciation) has been reduced. The plan implies there will be no subsidies in the future.
- Five seed preparation stations, more than the four called for in the benchmark, will be offered for sale or lease to the private sector. Divesting these units means that they will be independent.

C. AGRICULTURAL LAND AND WATER RESOURCE INVESTMENTS, UTILIZATION AND SUSTAINABILITY

Policy Benchmark C8. The GOE will develop and approve new policies, regulations, and criteria to promote drainage water re-use with appropriate incentives and technical support.

Verification Indicator C8.1. MPWWR develops a policy to promote drainage water re-use. Evidence of a policy is a document specifying the background to the development of the policy, the objectives of the policy, and the proposed new policy(s). The policy will include the provision of appropriate incentives and technical support.

Verification Indicator C8.2. The Steering Committee for Coordination and Monitoring of Water Resources Development through Agricultural Policies Reform approves the policy.

Verification Indicator C8.3. MPWWR identifies procedures required for the application of the policy.

Accomplishment per Verification Report: **Benchmark exceeded**

Updated Accomplishment: **Benchmark exceeded**

Analysis: The first two verification indicators were achieved, as a policy document was developed and its recommendations approved by the MPWWR Steering Committee and the Minister. To strengthen the rating of benchmark accomplishment (and show achievement of the third indicator), MVE notes that the procedures for the application of the drainage water reuse policy are laid out as recommended policy actions in the strategy document.

Policy Benchmark C9. The GOE will establish a pest management strategy that defines clearly the roles of government agencies, private sector service providers (including Cooperatives), and farmers in pest control. This strategy will include provisions to ensure environmental protection and government regulation, inspection and oversight of pest control operations carried out by private sector companies. Farmers will have a choice of service providers in a competitive market.

Verification Indicator C9.1. MALR develops a new strategy for pest management. Evidence of a strategy is a document giving the objectives of the strategy, the background information considered, and a statement of the new operating procedures. The strategy will include priorities for implementing the desired improvements and provisions for allowing and encouraging competition among private sector

providers of pest control services. Farmers will have a choice of service providers in a competitive market.

Verification Indicator C9.2. Approval of the strategy by the Minister.

Accomplishment per Verification Report: **Benchmark partially accomplished**

Updated Accomplishment: **Benchmark accomplished**

Analysis:

The strategy document was presented to H.E. Minister Wally, along with a cover letter drafted by Dr. Saad Nassar on 13 August 1998. Minister Wally indicated his approval of the strategy by noting on this letter that the MALR should take steps to implement the strategy. MVE has a copy of the strategy.

D. AGRICULTURAL SECTOR SUPPORT SERVICES

Policy Benchmark D4. The MALR will develop and approve a policy that defines the role of public-sector research and extension institutions in support of the private free-market agricultural economy of Egypt.

Verification Indicator D4.1. MALR develops a policy that defines the role of public sector research and extension institutions in support of the private, free-market agricultural economy of Egypt. Evidence of a policy is a document specifying the background to the development of the policy, the objectives of the policy.

Verification Indicator D4.2. MALR adopts the policy by issuing a decree or through another appropriate document.

Accomplishment per Verification Report: **Benchmark partially accomplished**

Updated Accomplishment: **Benchmark accomplished**

Analysis:

The policy document was completed by Drs. Bakir Oteifa and Abdel-Salam Gomaa (see attachment dated 20 July 1998). MALR has adopted the document's policy recommendations, as indicated by H.E. Minister Wally's instructions to proceed, noted on a letter from Dr. Saad Nassar (see attachment). MVE has a copy of the final report.